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FM AMCONSUL MUMBAI  
TO RUEHC/SECSTATE WASHDC 2513  
INFO RUEHNE/AMEMBASSY NEW DELHI 4161  
RUEHCI/AMCONSUL CALCUTTA 0869  
RUEHBI/AMCONSUL MUMBAI 7164  
RUEHCG/AMCONSUL CHENNAI 0939  
RUEHRC/DEPT OF AGRICULTURE USD FAS WASHINGTON DC  
RUCPDO/DEPT OF COMMERCE WASHINGTON DC

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DEPT FOR EB/TPP: SA/FO - RCHRISTENSON AND SA/INS - MNEWBILL  
USDOC FOR 4530/MAC/AMESA/ASO/LDROKER/ASTERN  
USDA/FAS/ITP/TPOMMERROY/JFLEMINGS/MFORD

E.O. 12958: N/A

TAGS: [EAGR](#) [ECON](#) [EAID](#) [ETRD](#) [PREL](#) [IN](#)

SUBJECT: PRIVATE SECTOR EFFORTS TO IMPROVE AGRICULTURAL MARKETS  
BENEFIT FARMERS IN MADHYA PRADESH

#### SUMMARY

1. (U) Private sector efforts to take computer technology, retail trade, and modern commodities exchanges to rural India are helping farmers in Madhya Pradesh (MP) get higher prices for their crops by cutting out middlemen. The Indian Tobacco Company (ITC), a major buyer of agricultural goods in the state, is leading efforts to remove agents and other intermediaries from the value-added chain by providing individual farmers real-time market information, borrowing ability and agricultural extension services. Besides operating thousands of "eChoupals" (internet kiosks) in rural farming villages, ITC has opened fully air-conditioned shopping malls at three different locations in MP, enabling farmers to buy the consumer goods that they can now afford with their additional income. Other top Indian corporate houses are reportedly planning to emulate ITC's successful business model. Additionally, commodities exchanges are making efforts to reach out to farmers by providing them with real-time pricing information, and the ability to use farm-produce warehouse receipts as collateral for trading margins and bank loans. Results to date show that the private sector is taking a lead in bringing efficiency and transparency to India's vast and mismanaged agricultural markets. End summary.

#### Is Intermediation Hurting Agricultural Development in MP?

2. (U) According to state government figures, 78 percent of MP's work force is directly engaged in agriculture. Outside of MP's two major cities, Bhopal and Indore, the state is largely agrarian, with small, fragmented family farms dominating the agricultural sector. Like elsewhere in rural India, poverty, infrastructure bottlenecks and small, unproductive farms historically have weighed down the sector and limited farmers' ability to invest in new technology. In addition, substantial government subsidies, largely as price supports for rice and wheat, have not provided farmers an incentive to innovate or diversify. Soybeans are perhaps the only exception, where large private investment in the soybean processing industry encouraged farmers to become the nation's leading growers of this crop.

3. (U) During a recent trip to Bhopal, Indore and rural areas of MP, Consul General and EconOff heard other constraints that are stunting MP's agricultural development. Our interlocutors frequently derided the extent to which intermediaries influence the agricultural markets in the state. EconOff spoke to several

small farmers in rural eastern MP who complained that the traditional agricultural marketing system favored unscrupulous agents and buyers rather than farmers. We learned that, in response, several private companies are now using IT to improve transparency and efficiency, reduce intermediation and hence put more of the value-added chain into the farmers' pockets. In particular, ITC and top commodities exchanges, both organized as private sector initiatives, are leading in this endeavor.

#### Bringing Computers to the Family Farm

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¶3. (U) In the year 2000, ITC, one of the country's largest exporters of agricultural commodities, launched the "eChoupal" project, which is now one of the most successful IT initiatives by a private corporation in rural India. (Note: "Choupals" are gathering places in the village where issues of the day are discussed. End note) To make an eChoupal, ITC puts a computer in the home of a village farmer, powers it using solar panels, and connects it to the internet by satellite dish. From this eChoupal, dozens of neighboring farmers access ITC-designed, Hindi-language web pages that provide real-time market prices for agricultural commodities, as well as district-specific weather reports and tips on modern growing methods. Farmers can access both ITC's prices and those of other area commodity buyers. The eChoupal system gives farmers far more transparency regarding market conditions and is already reducing dependence on traditional agent-arranged sales, where intermediaries have typically had the upper hand on price information and bargaining advantage.

¶4. (U) There are now over 5,200 eChoupal internet kiosks serving nearly 3.5 million farmers in 31,000 villages covering a range of crops (soybeans, wheat, rice, pulses, and coffee) in MP and elsewhere. According to ITC, farmers are getting up to 25 percent more for their goods when using the eChoupal system.

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ITC, for its part, is able to purchase commodities according to its specifications from farmers at lower prices, since the company essentially splits the margin previously taken by intermediaries with farmers.

¶5. (U) ITC also discovered that it could benefit from the increased purchasing power it helped place in farmers' pocketbooks by linking ITC purchase centers with retail outlets for farm inputs, machinery, and consumer goods. In Sehore, a small town south of Bhopal, Consul General and EconOff visited a new "eChoupal mall", ITC's latest initiative which combines eChoupal with retail sales. The mall is a modern, Wal-Mart like one-stop shop for farmers, enabling them to sell crops and also purchase items for farming or household use at the same location. At the mall, farmers get their cargo weighed electronically and are paid immediately in cash. The mall also has a lab to grade the quality of farmers' produce, and offers educational videos to farmers demonstrating improved agricultural practices. Entire families travel to the mall, enjoying what is for most their first experience of shopping in an air conditioned, modern retail outlet without apparent caste prejudices. Currently, three eChoupal malls operate in MP. ITC intends to open 25 more by March 2006 and 700 over the next five years.

¶6. (U) ITC's eChoupal project recently received several national and international awards for its potential to transform rural India. The curriculum of the Harvard Business School now includes a case study on the project and how the eChoupal movement may signal a paradigm shift in Indian agriculture. Eager to emulate ITC's success - especially in gaining the confidence of farmers who might be encouraged to eschew subsidized rice and wheat for cash crops like fruits and vegetables - large Indian corporate houses such as Bharti, Tata and Mahindra are reportedly planning similar initiatives in MP and elsewhere.

Commodities Exchanges Also Seek to Serve Farmers

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¶17. (U) Farmers are also benefiting from the two national commodity exchanges active in MP, the National Commodities and Derivatives Exchange (NCDEX) and the National Board of Trade (NBOT). NCDEX is the larger of the two, but NBOT commands a strong regional following due to its domination of soybean trading, the leading cash crop of MP.

¶18. (U) NCDEX's strength, in addition to its size, is its national system of 150 multiple-crop warehouses. We visited the Jawar Ice and Cold Storage warehouse in Indore, which was accredited by NCDEX in 2004 and has a cold storage capacity of 15,000 tons in addition to a dry storage capacity of 7,000 tons. Jawar Cold Storage is linked to the NCDEX database and recently introduced the NCDEX's so-called "dematerialized warehouse receipts." When farmers deposit their goods at the warehouse, they get receipts that can be used to finance margins for futures trading on the NCDEX. From the viewpoint of the NCDEX, the receipts are on par with securities as collateral, and the securities depositories with which NCDEX collaborates can now in fact book and otherwise treat the receipts much like any other security. With the warehouse receipt system, farmers can use NCDEX futures to hedge against future crop price losses. Local banks are also now accepting the receipts as collateral for loans to farmers. Warehouse owner Anil Jawar and the NCDEX management in Mumbai told us that the Reserve Bank of India is currently drafting legislation to make all warehouse receipts a form of legal tender for borrowing purposes. NCDEX plans to triple its storage capacity by the end of 2006.

¶19. (U) We also visited the National Board of Trade (NBOT) in Indore which, unlike the screen-based NCDEX, still uses an open outcry system of floor trading. Regionally, NBOT specializes in and dominates the trading of soybean, soy oil, rapeseed, mustard seed and crude palm oil. Karan Singh Pawar, an Indore-based Congress politician and NBOT trader, said NBOT continues to perform well despite intense competition from NCDEX because of its specialization and its links to the nation's major soy product manufacturers and distributors. NBOT told us it is fighting hard to keep its privileged position as the regional soy-trading venue, claiming that traders prefer regional exchanges, but it was not clear from our discussions how NBOT planned to compete with NCDEX to court farmers.

Comment

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¶10. (U) Many of our interlocutors in MP cited the large number of brokers, agents and other intermediaries as a main stumbling block to more innovation in the state's agricultural marketing. While such intermediaries should, and still do, help reallocate risks and bring transparency to an otherwise fragmented market, many of them apparently use their market power to perpetuate the very sub-optimal situation that they are supposed to help overcome. ITC and the commodities exchanges have now recognized the potential of using technology and market-based models to cut through many of the layers of intermediation so that farmers can gain more for their crops while consumers pay less for the end product. Other large Indian corporate houses have also recognized the potential of accelerating the process of dis-intermediation of the agricultural sector. Reliance Industries, for example, has ambitious plans for a series of Wal-Mart-like retail stores throughout India. Like Wal-Mart, Reliance intends to bypass as many intermediaries as possible to purchase directly from producers. Endeavors like those of ITC, Reliance and the privately run commodities exchanges show that the private sector can play a leading role in bringing efficiency and transparency to India's vast and mismanaged agricultural marketing system. End Comment.

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